

# INITIAL PUBLIC OFFERINGS AND INCOME INEQUALITY

*Policy Analysis Report to Supervisor Gordon Mar*

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Presentation to:

BUDGET AND FINANCE COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

April 24, 2019

# How do IPOs work in Tech Industry?

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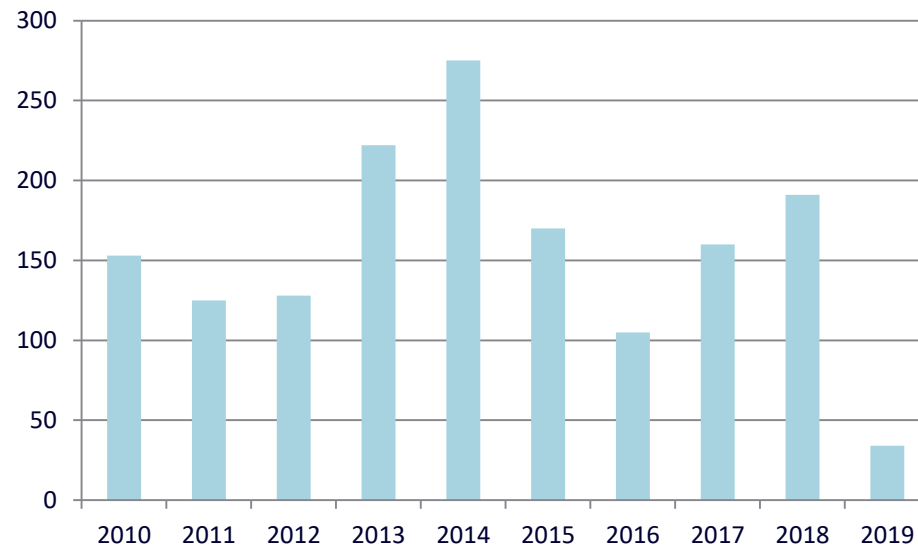
- Startup company solicits initial funding from venture capital firms.
- As company achieves success, may plan to go public to raise greater capital.
- Works with investment bankers to determine its valuation; plans to go public.
- Files S-1 with Securities & Exchange Commission, disclosing its business plan, finances, founders, investors, etc.
- Sets offering price; goes public.

## Company employees

- Common to receive stock options or restricted stock units when starting employment and/or as part of annual compensation at tech cos.
- Options subject to vesting schedule.
- Date set at which point employee can sell stock option shares (after company goes public).

# Number of IPOs in U.S., 2010-2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
153	125	128	222	275	170	105	160	191	34	1,372



# 1990s: Rise of Venture Capital & IPOs in Bay Area

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- 3 major investment banks established in SF serving technology companies in 1980s
- 800 venture capital firms established in Bay Area by 1999

Late 1990s Bay Area boom: Wealth creation & company expansion

- Netscape IPO 1995
- Total venture capital investment in U.S. 2000 = \$100 billion; \$33 billion in Bay Area
- 25% of all IPOs nationwide were for Bay Area companies
- Dot.com

Early 2000s crash

Economic boom restarts after Great Recession

## Likely & actual IPOs in San Francisco, 2019

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Company	Valuation	Estimated # employees in SF
Airbnb	\$35 bn.	2,300
Lyft*	\$24 bn.	1,600
Pinterest**	\$12.7 bn.	unknown
Postmates	\$1.85 bn.	340
Slack	\$7.1 bn.	750
Uber	\$100 bn.	3,000
Total		7,990

\*Company went public on March 28, 2019

\*\*Company went public on April 18, 2019

# Projected cumulative impact of IPOs on SF housing prices

- **1-2 YEAR IMPACT**
- **DEPENDS ON ALL SIX COMPANIES GOING PUBLIC (LARGE AND SMALL BALANCE OUT)**

	Median Value	\$ change	% change
Actual: Feb. 2019	\$ 1,304,200		
after 1st IPO	1,327,676	\$23,476	1.8%
after 2nd IPO	1,351,574	23,898	3.6%
after 3rd IPO	1,375,902	24,328	5.5%
after 4th IPO	1,400,668	24,766	7.4%
after 5th IPO	1,425,880	25,212	9.3%
after 6th IPO	1,451,546	25,666	11.3%
Total		\$ 147,346	11.3%

→ Basis: Analysis by 3 business/finance professions of impact of 725 IPOs in California between 1970 and 2017 on housing prices.

# SF income, wages, housing changes, 2010-2017

Recovery from dot.com bust and Great Recession brings another boom, with more real estate pressures, income inequality.

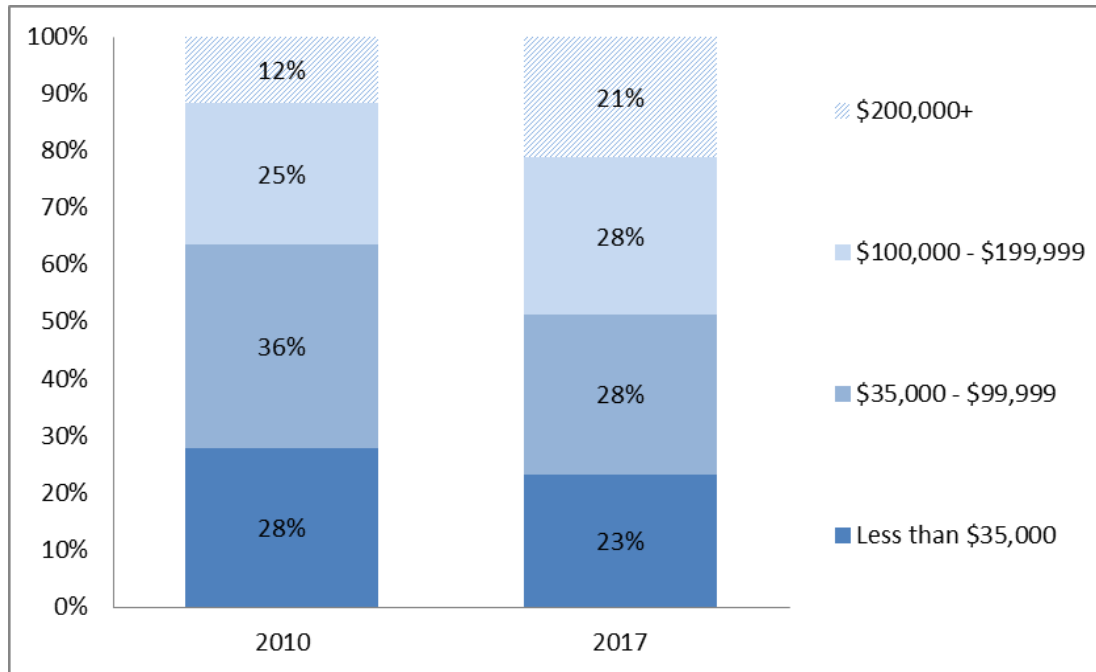
	<b><u>2010</u></b>	<b><u>2017</u></b>	CHANGE	% CHANGE
<b>POPULATION</b>	805,235	884,263	79,028	9.8%
<b>CIVILIAN EMPLOYED POPULATION</b>	444,628	504,914	60,286	13.6%
<b>HOUSING UNITS</b>	376,942	390,376	13,434	3.6%
<b>MEDIAN HOUSE PRICE</b>	\$697,700	\$1,120,000	423,299	60.7%

Brookings Institution Inequality Index. SF = 6<sup>th</sup> highest of 100 largest cities.

Household Income	20 <sup>th</sup> percentile	95 <sup>th</sup> percentile	Multiple
<b>2016</b>	\$31,840	\$507,824	15.9
<b>2014</b>	\$26,730	\$388,491	14.5
<b>% increase</b>	19.1%	46.2%	

## Changes in SF income distribution, 2010-2017

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# Differences between high and low wage earners

⇒ Study: Close association between high-wage and low-wage job growth. San Francisco was responsible for the largest growth in low-wage jobs in the Bay Area (Karner & Benner)

	Employment Estimate May '12	Employment Estimate May '17	% Chg.	Mean Hourly Wage '12	Mean Hourly Wage '17	% Chg.
Occupations \$25/hr & under in 2017	329,410	376,100	14%	\$ 18.27	\$ 21.08	15%
Occupations over \$40/hr. in 2017	267,280	336,910	26%	\$ 49.05	\$ 59.02	20%
Multiple: highest:lowest				4.2	5.2	
<b>Total Jobs</b>	1,000,430	1,116,390	12%			

Note: Multiple between Management and Personal Care & Service occupations

⇒ Study: Housing crisis is actually an income crisis (Chapple, et al)

## Growing difference between Fastest Growing Occupations, 2012 to 2017

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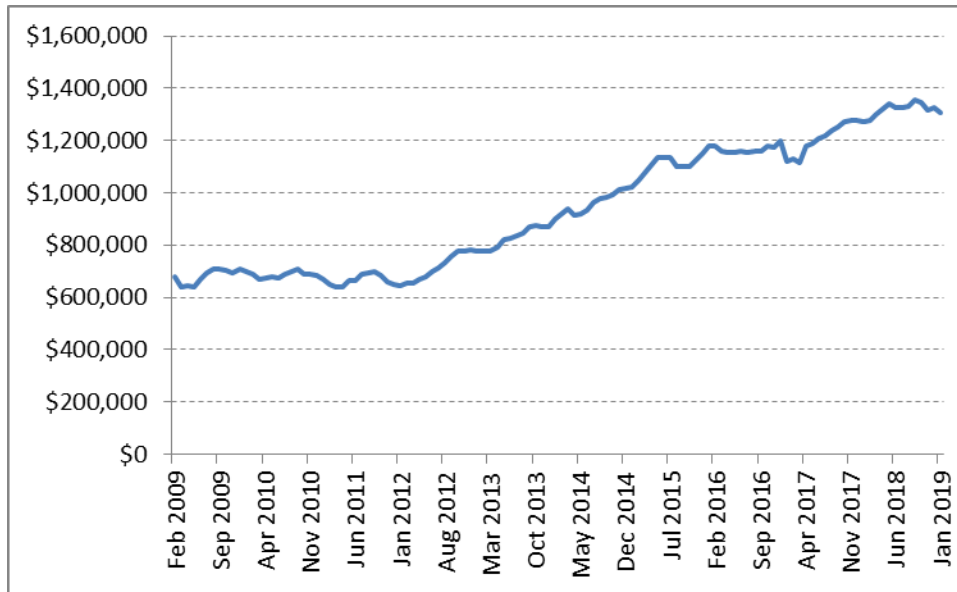
	2012	2017	% Change
<b>Mean Annual Wages</b>			
Computer and Mathematical Occupations	\$102,096	\$126,812	24%
Personal Care and Service Occupations	\$33,942	\$31,743	-6%
Multiple: difference in wages	3.0	4.0	

# Changes: Top and Bottom 5 Wages Occupation Categories

⇒ **Study:** Income inequality has risen sharply in the past decade largely due to the decline in middle-wage jobs and the stagnation of wages for many workers, plus a rapid increase in wealth for workers and households at the top of the income spectrum. (Economic Prosperity Strategy).

Occupation Categories	Employment Estimate		% Chg.	Mean Hourly Wage '12	Mean Hourly Wage '17	% Chg.
	Employment Estimate May '12	Employment Estimate May '17				
Management	74,790	90,630	21%	\$ 69.25	\$ 79.77	15%
Computer and Mathematical	63,470	93,670	48%	\$ 49.08	\$ 60.97	24%
Healthcare Practitioners and Technical	42,730	43,870	3%	\$ 49.02	\$ 57.07	16%
Business and Financial Operations	86,290	108,740	26%	\$ 44.55	\$ 49.85	12%
Education, Training, and Library	48,280	44,140	-9%	\$ 29.93	\$ 35.51	19%
Sales and Related	101,300	98,110	-3%	\$ 25.98	\$ 28.38	9%
Transportation and Material Moving	47,920	61,770	29%	\$ 20.22	\$ 25.26	25%
Office and Administrative Support	156,590	151,820	-3%	\$ 22.19	\$ 25.09	13%
Food Preparation and Serving-Related	98,410	107,660	9%	\$ 12.89	\$ 17.07	32%
Personal Care and Service	26,490	54,850	107%	\$ 16.32	\$ 15.26	-6%
Subtotal	746,270	855,260	15%			
Other occupations	254,160	261,130	3%			
<b>Grand Total</b>	<b>1,000,430</b>	<b>1,116,390</b>	<b>12%</b>			
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# Monthly Median Sale Price, San Francisco – All Homes



+93%: 2009-2019

Source: Zillow

→ Estimated 1-2 Year Impact if all six companies IPO: +\$147,346 (11.3%)

# Policy Options

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1. Enhance funding for existing City workforce development, economic development, affordable housing, and subsidized childcare programs, particularly those aimed at the low and moderate income workforce.
2. Enhance City programs aimed at financial empowerment, such as Treasurer-Tax Collector's Kindergarten to College, Bank on SF, and Smart Money Coaching.
3. Enhance taxes such as the City's payroll or gross receipts tax for companies above a certain size and/or gross receipts level; proceeds for affordable housing, childcare, workforce development.
4. Establish a gross receipts surtax on companies with differentials between CEO and average worker pay above a certain level.
  1. City of Portland, OR
5. Establish other taxes on large or high-value companies
  1. Parcel Tax (East Palo Alto = \$2.50/sf of commercial space)
  2. Annual per employee tax (Mountain View, with larger companies paying higher rate)
6. Provide incentives or assistance to households under a certain income level to enroll in retirement plans.
7. Lobby for changes to federal and state tax policies.



# Questions and comments

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